



HOME Rehabilitation Loan Program

PROGRAM CONCEPT

OBJECTIVE

The HOME Rehabilitation Loan Program (RLP) provides deferred loan financing to low income homeowners needing to rehabilitate their existing residential housing for the purpose of improving its safety, livability or energy efficiency. The RLP is a compliment to loan programs available in the private sector and fills the financing gap that exists between homeowners who are able to secure home improvement financing in the private sector and those homeowners who are unable to do so. Existing residential housing will be rehabilitated to meet Minnesota Housing's Single Family Rehabilitation Standard (Rehabilitation Standard), thereby ensuring that all deficiencies as cited in a property inspection under the Rehabilitation Standard are cured. Homeowners needing assistance of an emergency nature or to address an essential accessibility need will be referred to the Minnesota Housing Emergency & Accessibility Loan Program.

- Program Lenders will be selected and contracted through a Request for Qualifications (RFQ) process, which will ensure that RLP is adequately and equitably implemented across the State of Minnesota. Program Lenders must track all applicants to document compliance with federal Fair Housing and document reason for denial for future Program evaluation.

RLP LOAN TERMS

- RLP loans will be made in amounts necessary to complete the required rehabilitation up to the maximum loan amount of \$24,999. The maximum loan amount may be exceeded by an additional \$10,000 in order to comply with necessary federal lead based paint reduction requirements.
- RLP will offer interest-free, deferred loans, which are forgiven at the end of the loan term. The loan term will be for 15 years for all properties except that the loan term will be 10 years for mobile/manufactured homes. Loans will be due and payable if the Borrower sells, transfers title, or ceases to occupy the home as a primary residence during the term of the loan.
- All loans will be secured with a mortgage. Loans made in conjunction with a manufactured home taxed as personal property must be secured with a lien on the manufactured home title.

BORROWER ELIGIBILITY

- Borrower cannot have previously received financing through the Rehabilitation Loan Program in the previous five years.
- Borrower must be current on mortgage loan payments and up to date on real estate taxes.
- Borrower must have gross household annual income at or below 30% of the Twin Cities median income adjusted for family size as determined by the Department of Housing and Urban Development (HUD).
 - In cases where Borrowers have extraordinary medical expenses, the Borrowers calculated gross household annual income may exceed the aforementioned limit so long as:
 - Calculated gross household annual income is at or below 80% of the Twin Cities median income adjusted for family size as determined by HUD; and
 - The adjusted gross household annual income after deducting the amount of the extraordinary medical expenses is at or below 30% of the Twin Cities median income adjusted for family size as determined by HUD.
- Income calculations will be conducted in accordance with 24 CFR 5.609 and be completed no more than six months prior to start of rehabilitation.
- Borrowers must not have liquid assets in excess of \$25,000 at the time of loan application.
- All Borrowers must have occupied the property as an owner-occupant and as their principal residence for at least six months prior to start of rehabilitation. Co-signers are not allowed.
- Borrowers must have applied to Energy Assistance Program, which is the entry portal to the Weatherization Program.
- Eligible forms of ownership interest include:
 - Fee simple title;
 - A leasehold interest of at least 99 years, which includes a community land trust;
 - A leasehold interest of at least 50 years on Tribal restricted/trust land; or
 - A mobile/manufactured home¹ taxed as real property or taxed as personal property and located in a mobile home park.
- Contracts for deed are an ineligible form of ownership.
- Borrowers must have clear title as evidenced by a title search or a title opinion. A copy of the deed alone is not sufficient.

¹ A manufactured home is defined as "a structure, transportable in one or more sections which, in the traveling mode, is eight body feet or more in width or forty body feet or more in length, or, when erected on site, is three hundred twenty or more square feet, and which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities, and includes the plumbing, heating, air-conditioning, and electrical systems contained therein." 24 CFR Part 3280.2. This definition does not include modular homes, which are treated as site-built homes.

PROPERTY ELIGIBILITY

- Prior to commitment of RLP funding and before any construction contracts are signed to perform rehabilitation on the property, properties must undergo an environmental review that results in a determination that the property is in compliance with National Environmental Protection Act (NEPA).
- Eligible properties must be located in Minnesota and include:
 - single family detached homes;
 - an eligible one unit structure in a planned unit development;
 - a condominium unit built after January 1, 1978;
 - a townhome built after January 1, 1978; and
 - certain mobile/manufactured homes meeting eligible ownership requirements.
- Ineligible properties are:
 - properties containing two or more units;
 - properties intended to be an investment property;
 - properties intended for recreational use;
 - properties where a portion of the residence is specifically designed for commercial use; or
 - properties where more than 50% of the total area of the residence is used in a trade or business.
- The after-improved value of the home cannot exceed 95 percent of the median purchase price for an area, as set by HUD.
- After rehabilitation, eligible properties must:
 - Meet Minnesota Housing's Rehabilitation Standard including the enacted-upon Minnesota Green Communities Criteria for Rehabilitation as modified by the Minnesota Housing Single Family Overlay; and
 - Be in compliance with all applicable state, county and municipal health, housing, building, fire prevention, and housing maintenance codes, or other public standards.
- The State Building Code will be applied to all eligible properties in all areas of the State.
- All properties constructed before January 1, 1978, must meet the lead based paint requirements outlined in 24 CFR Part 35.

REHABILITATION ELIGIBILITY

- Each rehabilitation improvement must be a permanent general improvement made in compliance with all applicable state, county and municipal health, housing, building, fire prevention, and housing maintenance codes, or other public standards.
- Ineligible improvements include:
 - Construction and reconstruction of garages;
 - "Luxury" improvements, which are improvements of a type exceeding that customarily used in the locality for properties of the same type as the property to be improved (swimming pool, outdoor hot tub, etc);
 - Improvements that do not become a permanent part of the real property such as freestanding refrigerators and stoves;

- Public improvement assessments – loan proceeds may not be used in whole or in part to pay public improvement assessments;
- Improvements already in place – loan proceeds may not be used to pay for any work done prior to the date of the loan application; and
- Existing debt – loan proceeds may not be used to pay off existing debt.
- Prior to rehabilitation, properties must be inspected to Minnesota Housing's Rehabilitation Standard to determine property deficiencies.
- All rehabilitation improvements must be outlined on a written scope of work.
- Rehabilitation improvements to Manufactured Housing must comply with Minnesota State Building Code 1350.3800, which addresses the distinction between a construction alteration and a repair and the different licensing requirements involved with each improvement and at Minnesota Housing's discretion.
- On a case-by-case basis, relocation expenses due to lead based paint reduction activity may be allowed.
- All rehabilitation work must be completed by building contractors that are licensed in the State of Minnesota and are not on HUD's Debarred List.
- At least three bids from building contractors must be solicited based on the written scope of work. Program Lenders may assist Borrowers in selecting the building contractor(s) to complete their work. In general, the lowest, reasonable bid should be selected. If it isn't, a written justification must be provided.
- A written construction contract must be executed between the building contractor and the Borrower.
- If there are any changes in the written scope of work, documented change orders must be executed between the building contractor and the Borrower.
- Lien waivers must be collected from all building contractors at completion of the rehabilitation.
- Borrower labor will not be allowed.

ELIGIBLE PROGRAM LENDERS

- A political subdivision,
- A nonprofit entity as defined by Minnesota Housing,
- A housing and redevelopment authority, or
- Other organization designated by Minnesota Housing, which has as a primary purpose the provision or development of affordable housing to low income persons or households in Minnesota.

PROGRAM LENDER COMPENSATION

- Program Lenders will be paid on a fee for service basis such as:
 - Inspections to the Rehabilitation Standard;
 - Scope of Work Write-Ups;
 - Rehabilitation Contractor Procurement;
 - Rehabilitation/Construction Oversight/Management;
 - Lead Based Paint Inspections;
 - Lead Based Paint Risk Assessments;

- Lead Based Paint Clearance Testing and Reporting;
- Building Inspections to MN State Building Code (Permit Fees);
- Loan Documentation Preparation;
- Title Searches/Title Opinion/Title Insurance;
- Marketing/Outreach;
- Legal Fees;
- Recording Fees; and
- Travel/Mileage.
- Program Lenders will outline whether these services are provided in-house or contracted out to third parties and what fee they will charge for each service as part of the RFQ.

REQUEST FOR QUALIFICATIONS (RFQ)

- RLP Lenders will be funded as contractors, which will require a RFQ process. The RFQ will occur on a biennial basis to coincide with Minnesota Housing's Affordable Housing Plan (AHP). The RFQ will solicit applications from Eligible Program Lenders and will evaluate prospective Program Lender's capacity and ability to deliver the RLP successfully as indicated by:
 - Their past performance and production in the current State-Funded Rehabilitation Loan Program;
 - Their ability to perform inspections in accordance with Minnesota Housing's adopted Rehabilitation Standard, either by an in-house inspector or a sub-contracted inspector;
 - Their ability to partner with a State Building Code Official to ensure compliance with the State Building Code;
 - The competitiveness of their estimated Per Unit Soft Costs needed to carryout the RLP; and selection of Program Lenders must ensure that there will be adequate coverage throughout the State in order to ensure that homeowners receive fair and equal access to RLP funding.
 - Their ability to leverage other funds when available to augment the RLP and complete the needed rehabilitation work (including weatherization funds, other local rehabilitation program funds, etc).

FUNDING

- Funds will be offered on a first-come, first-served basis via regional pools for each of the seven Regional Housing Advisory Group (RHAG) regions. Lenders can have up to five loans in process at any given time. When a loan in process is approved for purchase by Minnesota Housing the lending partner can commit an additional loan.
- Commitments will be valid for 180 days with extensions granted only in unusual or extenuating circumstances; commitments will automatically expire on day 181.
- Up to three disbursements may be made:
 - The first is at 50 percent completion as indicated by documented costs;
 - The second is at the completion of construction when Program Lenders can request up to the hold-back amount, (a percentage of the loan amount, as indicated by documented costs); and

- The third is at the completion of the compliance review by Minnesota Housing staff.

DOCUMENTATION REQUIREMENTS

- Administrator must retain any and all documents (including compliance with Minnesota Housing program guidelines) as may be required, including, but not limited to:
 - All HOME requirements;
 - Records for all rehabilitation improvements including scope of work, bids and estimates, sworn construction statement, lien waivers, change orders and completion certificates;
 - Evidence that rehabilitation work meets state or local building code and Minnesota Housing Rehabilitation Standard;
 - Records that demonstrate compliance with the lead-based paint requirements;
 - Copy of Homebuyer Application;
 - Written verification of all major sources of income;
 - Written verification of current property ownership.